



NAMMC
Promoting market access for South African agriculture

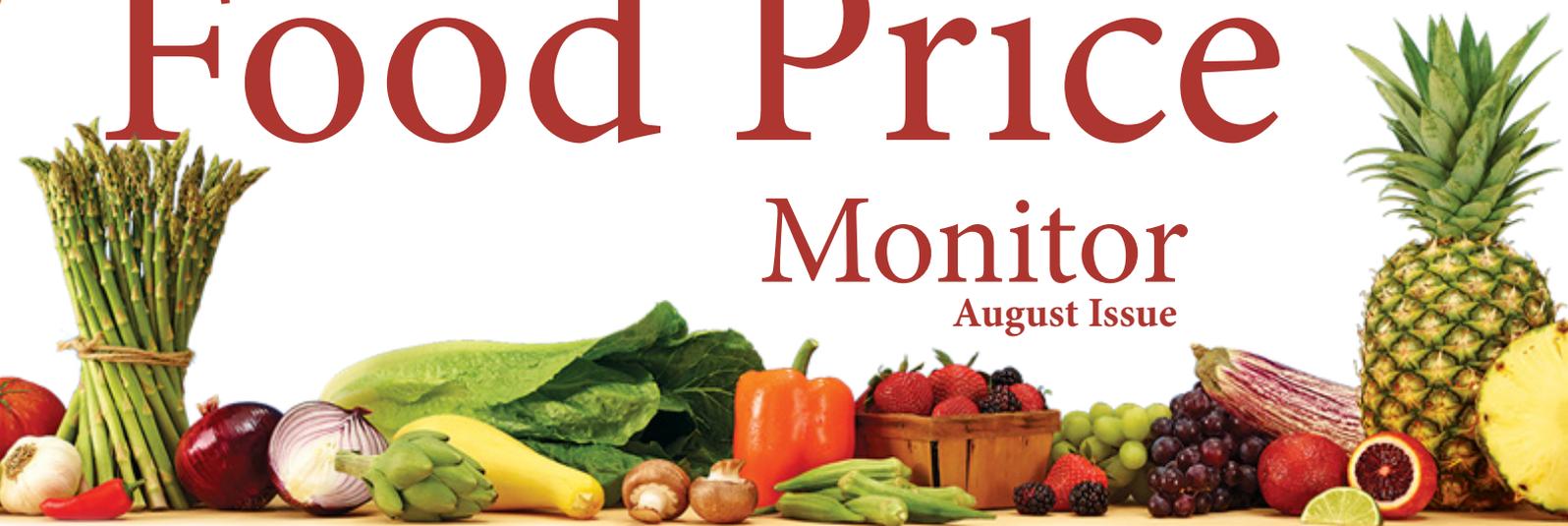


2019

Food Price

Monitor

August Issue



EXECUTIVE SUMMARY

During July 2019, the Consumer Price Index (CPI) released by Statistics South Africa (Stats SA) indicated that the headline CPI and the food and non-alcoholic beverage price indices reached 4% and 3.4%, respectively, compared to the 4.5% and 3.7% reported in June 2019.

Prices were compared for selected food items in rural and urban areas for July 2019. Food items showing the largest price differences between urban and rural areas in July 2019 include: sunflower oil (750ml) at a difference of R3.70, Ceylon/black tea (62.5g) at R3.17 difference, and super maize meal (2.5kg) at a difference of R1.29. This indicates that urban consumers pay R0.34 more, on average, for some of these food items. In other cases, however, rural consumers paid more for certain products (white sugar (2.5kg), margarine spread (500g), and peanut butter (400g)), than their urban counterparts.

The FAO Food Price Index (FFPI), in nominal terms, averaged 170.9 points in July 2019, down 1.1% (1.8 points) from June 2019 but 2.3% higher than in July 2018. The m-o-m decline was the result of lower prices for some cereals, dairy products and sugar, which more than offset somewhat firmer prices for meat and oils.

During July 2019, the nominal cost of the NAMC's 28-item urban food basket amounted to R870.47 compared to the R873.75 reported during June 2019, resulting in a monthly percentage decrease of 0.4%. When compared to July 2018, an annual (y-o-y) percentage increase of 3% was reported.

Comparing July 2019 vs. July 2018 retail prices, higher price increases (6% or more) were observed for the following products within the NAMC's 28-item food basket: bananas, maize meal, apples, brown bread, white sugar, baked beans, Ceylon/black tea, peanut butter, white bread, cabbage, full cream milk, and canned pilchards. When comparing price changes for July 2019 vs. July 2018 with April 2019 vs. April 2018 higher price increases were reported for bread & cereals, fruit, dairy, bean products, coffee & tea, and sugar.

A key factor that could provide upward pressure to the outlook period are the exchange rate movements over the next six months. Looming global and macro-economic issues such as an intensification of the USA-China trade war and a possible downgrade rating for South Africa, could accelerate inflationary pressures on food which is currently relatively benign.





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Introduction

During July 2019, the Consumer Price Index (CPI) released by Statistics South Africa (Stats SA) indicated that the headline CPI and the food and non-alcoholic beverage price indices reached 4% and 3.4%, respectively. The same indices were at 4.5% and 3.7% respectively, during June 2019. **Figure 1** shows trends of the headline CPI and food and non-alcoholic beverage inflation rates on a monthly basis, from January 2012 to July 2019.

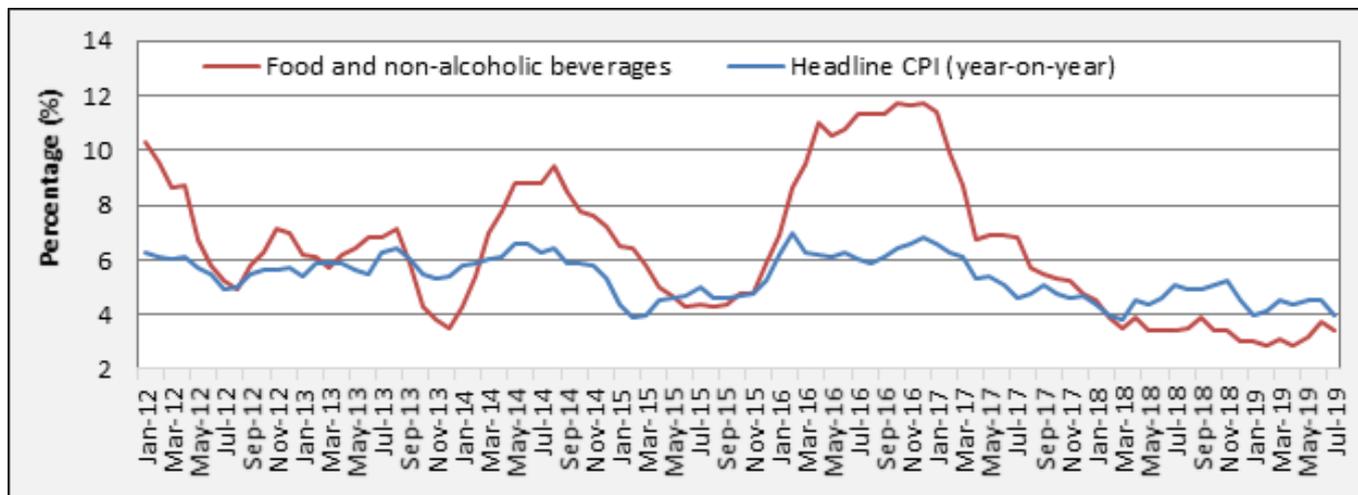


Figure 1: Headline CPI and food and non-alcoholic beverage CPI

Source: Stats SA, 2019

Figure 2 presents the components of the food and non-alcoholic beverage index changes. During July 2019 vs. July 2018, the following changes, in descending order, were reported: sugary foods (8.7%), bread & cereals (7.9%), fish (6.4%), fruit (6.0%), processed foods (5.1%), vegetables (4.3%), other food items (3.7%), oils & fats (2.9%), milk, eggs and cheese (1.6%), unprocessed foods (1.5%), and meat (0.2%). The monthly percentage changes are also illustrated.

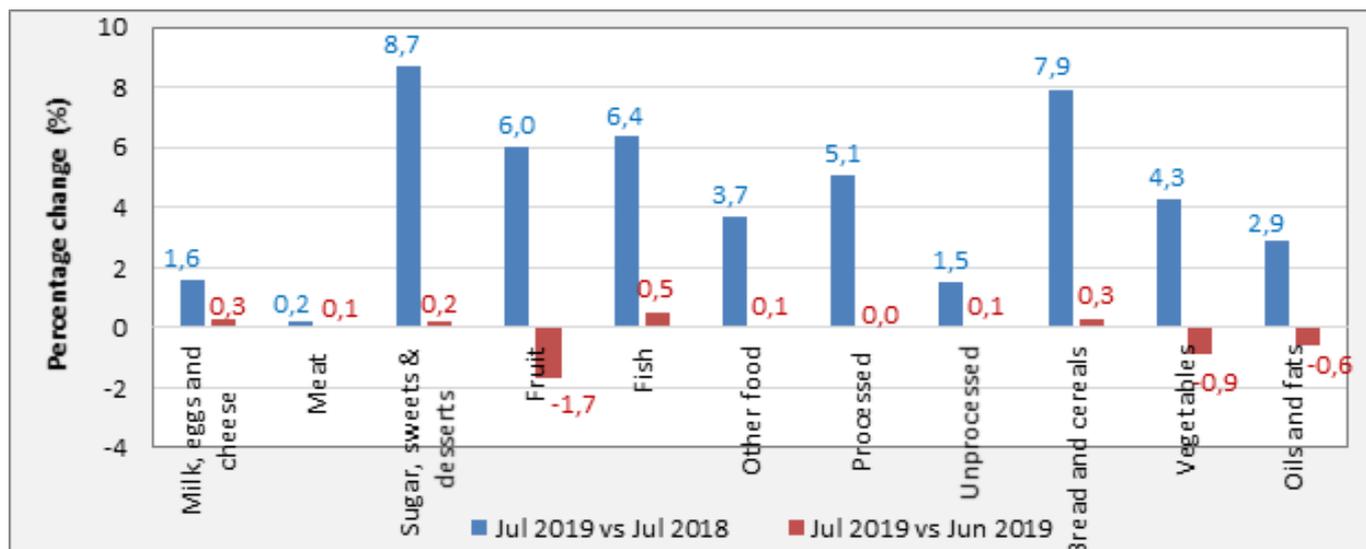


Figure 2: Annual (July 2019 vs. July 2018) and monthly (July 2019 vs. June 2019) CPI changes for different food categories

Source: Stats SA, 2019

Overall inflation and food inflation: South Africa and selected countries

Table 1 shows the y-o-y overall inflation and food inflation rates for July 2019 for South Africa and other selected countries. South Africa's overall inflation for July 2019 reached 4% with food inflation reaching 3.4%. The food categories with the largest annual contribution to South African food inflation include sugary foods, bread & cereals, and fish. The Zambian overall inflation rate for July 2019 reached 8.8%, with food inflation at 9.3%. Botswana's overall inflation rate reached 2.9%, with a projected food inflation rate of 1.6%, during July 2019. Turkey's overall inflation rate reached 16.7%, compared to their food inflation rate of 18.2%. Considering inflation rates of the BRIC countries, China recording the lowest annual inflation of 2.8%, with the highest food inflation rate of 9.1%.

Table 1: Overall inflation and food inflation during May 2019 to July 2019

Country	May 2019		June 2019		July 2019	
	Overall inflation (%)	Food inflation (%)	Overall inflation (%)	Food inflation (%)	Overall inflation (%)	Food inflation (%)
Botswana	2.6	1.0	2.8	1.3	2.9	1.6
Brazil	4.7	6.4	3.4	4.0	3.2	4.1
China	2.7	7.7	2.7	8.3	2.8	9.1
India	3.1	1.8	3.2	2.3	3.2	2.4
Namibia	4.1	4.4	3.9	3.9	3.6	3.4
Russia	5.1	7.3	4.7	6.2	4.6	6.3
South Africa	4.5	3.2	4.5	3.7	4.0	3.4
Turkey	18.7	28.4	15.7	19.2	16.7	18.2
United Kingdom	2.0	1.0	2.0	1.6	2.1	1.4
United States (US)	1.8	2.0	1.6	1.9	1.8	1.8
Zambia	8.1	9.1	8.6	9.2	8.8	9.3

Sources: Central banks and statistics reporting institutions of these countries, 2019

**Note: Projected value*



Urban and rural food price trends: July 2019 vs. July 2018

Tables 2 and 3 rank selected food items pertaining to urban and rural areas, according to their various inflation rates. The food products highlighted in Table 2 are those with annual urban inflation rates exceeding the South African Reserve Bank's (SARB) inflation upper band of 6%:

Table 2: Food items in the urban areas ranked (July 2019 vs. July 2018)

Grain and grain products	%	Meat, meat products, dairy, dairy products and eggs	%	Fresh and processed fruits and vegetables	%
Loaf of white bread (each)	-15.8%	Powdered milk 400g	-12.7%	Naartjies - fresh per kg	-14.5%
Margarine spread 1kg	-4.2%	Eggs 2.5 dozen	-8.8%	Beans - dried 1kg	-5.1%
Cake flour 5kg	-3.9%	Eggs 1.5 dozen	-7.7%	Pears - fresh per kg	-4.3%
Cake flour 1kg	-3.6%	Beef sirloin - fresh per kg	-5.5%	Oranges - fresh per kg	-0.9%
Brick margarine 500g	-3.3%	Beef fillet - fresh per kg	-4.0%	Carrots - fresh per kg	1.5%
Cake flour 2.5kg	-1.8%	Lamb - rib chop per kg	-3.9%	Sweet potatoes - fresh per kg	1.7%
Pasta 1kg	-0.2%	Powdered milk 250g	-3.8%	Beans - dried 500g	1.7%
Margarine spread 500g	0.0%	Beef chuck - fresh per kg	-3.5%	Beans - dried 2kg	2.0%
Rice 2kg	1.7%	Beef stew - per kg	-3.3%	Onions - fresh per kg	2.8%
Sunflower oil 750ml	1.8%	IQF chicken portions - 1,8kg	-2.9%	Potatoes - fresh per kg	4.7%
Brick margarine 250g	1.9%	Beef brisket - fresh per kg	-2.8%	Tomatoes - fresh per kg	5.5%
Brick margarine 1kg	2.3%	IQF chicken portions - 5kg	-2.8%	Cabbage - fresh per kg	6.8%
Loaf of white bread 600g	2.6%	Lamb - offal per kg	-2.8%	Cabbage - fresh each	6.8%
Peanut butter 800g	2.8%	IQF chicken portions - 2kg	-2.3%	Baked beans - tinned 410g	8.6%
Brick margarine 125g	3.4%	Beef mince - fresh per kg	-2.1%	Cauliflower - fresh per kg	11.7%
Rice 500g	3.5%	Lamb - loin chop per kg	-2.0%	Pumpkin - fresh per kg	12.4%
Rice 1kg	4.2%	Lamb - stew per kg	-2.0%	Apples - fresh per kg	13.8%
Macaroni 1kg	4.4%	Corned beef 300g	-1.7%	Bananas - fresh per kg	22.8%
Loaf of brown bread 600g	4.8%	IQF chicken portions - 4kg	-1.4%	Beetroot - fresh per kg	29.7%
Instant noodles 78g	5.0%	Eggs 0.5 dozen	-1.3%		
Sunflower oil 2l	5.2%	Lamb - leg per kg	-1.3%		
Super maize 1kg	5.7%	Beef offal - fresh per kg	-1.3%	Other	%
Cold cereals 450g	5.8%	Beef T-bone - fresh per kg	-0.9%	Instant coffee 100g	-4.8%
Cold cereals 500g	5.9%	Lamb - neck per kg	0.4%	Ceylon/black tea 500g	-4.3%
Instant noodles 73g	6.1%	IQF chicken portions - 1,5kg	0.5%	Instant coffee 250g	-1.8%
Cold cereals 750g	6.5%	Chicken giblets per kg	0.8%	Instant coffee 500g	-0.1%
Pasta 500g	6.7%	Beef rump steak - fresh per kg	1.2%	Instant coffee 750g	0.1%

Grain and grain products	%	Meat, meat products, dairy, dairy products and eggs	%	Fresh and processed fruits and vegetables	%
Loaf of white bread 700g	6.8%	Chicken portions frozen - non IQF average per kg	1.3%	Ceylon/black tea 62.5g	1.9%
Instant noodles 85g	6.9%	Chicken portions frozen - non IQF per kg (real)	1.3%	Instant coffee 200g	3.7%
Peanut butter 400g	7.9%	Powdered milk 900g	1.7%	White sugar 10kg	6.1%
Special maize 10kg	8.1%	Powdered milk 500g	1.9%	White sugar 1kg	7.1%
Cold cereals 400g	8.4%	Cheddar cheese per kg	2.0%	Ceylon/black tea 250g	7.9%
Spaghetti 500g	9.1%	Tuna - tinned 170g	2.1%	White sugar 500g	9.2%
Sunflower oil 4ℓ	10.2%	Low fat milk - long life 1,5ℓ	2.1%	White sugar 5kg	9.4%
Peanut butter 250g	10.7%	Full cream milk - long life 500mℓ	2.3%	White sugar 2.5kg	11.1%
Macaroni 500g	10.7%	Full cream milk - fresh 250mℓ	3.2%	Ceylon/black tea 125g	11.4%
Loaf of brown bread 700g	11.3%	Low fat milk - fresh 2ℓ	3.5%	White sugar 2kg	17.2%
Super maize 2.5kg	11.6%	Full cream milk - fresh 500mℓ	3.8%		
Instant noodles 75g	11.9%	Full cream milk - fresh 1ℓ	3.9%		
Spaghetti 1kg	14.1%	Chicken portions - fresh per kg	4.0%		
Special maize 2.5kg	14.7%	Sausage 500g	4.4%		
Rice 5kg	14.8%	Full cream milk - fresh 2ℓ	4.7%		
Super maize 5kg	16.7%	Pork chops - fresh per kg	4.8%		
Special maize 5kg	18.0%	Low fat milk - fresh 1ℓ	5.5%		
Special maize 1kg	19.3%	Polony per kg	5.5%		
Sunflower oil 500mℓ	51.4%	Whole chicken - fresh per kg	5.5%		
		Ham 500g	5.9%		
		Fish (excl. tuna) - tinned 400g	6.2%		
		Low fat milk - long life 1ℓ	6.4%		
		Pork - ribs per kg	6.5%		
		Full cream milk - long life 1ℓ	6.7%		
		Fish (excl. tuna) - tinned 215g	8.7%		
		Full cream milk - long life 6x1ℓ	10.7%		
		Bacon 250g	11.9%		
		Fish (excl. tuna) - tinned 155g	14.2%		

Source: Stats SA, 2019

Note: Food items highlighted in the table above experienced price increases above the South African Reserve Bank's (SARB) inflation target of 6%.

The food products highlighted in **Table 3** record selected products exceeding the SARB annual inflation rate of 6% in the rural areas.

Table 3: Food items in the rural areas ranked (July 2019 vs. July 2018)

Grain and grain products	%	Meat, meat products, dairy, dairy products and eggs	%	Fresh and processed fruits and vegetables	%
Brick margarine 250g	-1.9%	Low fat milk - fresh 2ℓ	-4.0%	Oranges - fresh per kg	-6.7%
Margarine spread (tub) 1kg	-1.6%	Beef fillet - fresh per kg	-1.9%	Onions - fresh per kg	-6.1%
Sunflower oil 500mℓ	0.1%	Full cream milk - long life 500mℓ	0.6%	Beans dried 500g	-1.3%
Brick margarine 500g	0.2%	Beef chuck - fresh per kg	1.1%	Tomatoes - fresh per kg	-0.8%
Peanut butter 270g	0.7%	Full cream milk - fresh 1ℓ	1.3%	Beans dried 1kg	0.4%
Margarine spread (tub) 500g	0.9%	Full cream milk - fresh 500mℓ	1.7%	Potatoes - fresh per kg	0.4%
Sunflower oil 2ℓ	1.8%	Beef brisket - fresh per kg	2.2%	Beans dried 2kg	3.2%
Rice 1kg	3.2%	Full cream milk - long life 1ℓ	2.4%	Apples - fresh per kg	6.6%
Peanut butter 400g	3.3%	Beef T-bone - fresh per kg	2.7%	Bananas - fresh per kg	20.0%
Rice 500g	3.6%	Full cream milk - fresh 2ℓ	2.8%	Potatoes - fresh 10kg	34.2%
Sunflower oil 750mℓ	3.6%	Fish (excl. tuna) - tinned 155g	4.8%		
Special maize 1kg	4.8%	Beef rump steak -fresh per kg	7.8%		
Super maize 1kg	5.3%	Eggs 1/2 dozen	8.8%	Other products	%
Loaf of brown bread 600g	5.3%	Fish (excl. tuna) - tinned 425g	28.6%	Ceylon/black tea 200g	-2.8%
Rice 2kg	5.5%			Ceylon/black tea 62.5g	-0.9%
Loaf of white bread 600g	5.5%			Instant coffee 250g	0.3%
Brick margarine 125g	5.6%			Instant coffee 100g	0.7%
Super maize 5kg	5.7%			Ceylon/black tea 125g	3.8%
Super maize 2.5kg	7.1%			Ceylon/black tea 250g	4.1%
Loaf of white bread 700g	7.6%			White sugar 1kg	4.3%
Loaf of brown bread 700g	7.9%			White sugar 2.5kg	5.2%
Peanut butter 800g	8.0%			Instant coffee 750g	6.3%
Special maize 5kg	16.7%				
Special maize 2.5kg	18.3%				

Source: Stats SA, 2019

Note: Food items highlighted in the table above experienced price increases above the South African Reserve Bank's (SARB) inflation target of 6%.

A closer look at annual food price trends: July 2019 vs. July 2018

During the period July 2019 vs. July 2018, the international price of wheat (US No.2, Hard Red Winter ord. Prot., US FOB Gulf) decreased by 10.1%, while the domestic wheat prices increased by 11%. Urban consumers paid 11.3% and 6.8% more for a loaf of brown and white bread (700g), respectively. Domestic yellow maize prices increased by 32.9%, while international yellow maize prices increased by 21.1%. Super and special maize meal prices (2.5kg) increased by 11.6% and 14.7%, respectively, in urban areas. During the same period, the urban prices of sunflower oil (750mℓ) increased by 1.8%. Domestic prices of sunflower seed increased by 10.2% annually, whilst the international sunflower seed prices decreased by 8.2%.

During July 2019 vs. July 2018, the average beef producer prices (R/kg) of classes A2/A3, B2/B3 and C2/C3 decreased by 3.9%, 9.8% and 9.5%, respectively. Lamb/mutton producer prices (R/kg) of classes A2/A3, B2/B3 and C2/C3 decreased by 9.4%, 28% and 19.9%, respectively. Producer prices of frozen, fresh and individually quick frozen (IQF) chicken portions (R/kg) increased by 4.4%, 2.3% and 1.6%, respectively. Porker and baconer producer prices (R/kg) increased by 15.5% and 20.1%, respectively.

Comparison between urban and rural prices: July 2019

Table 4 compares prices of selected food items in rural and urban areas for July 2019. Food items showing the largest price differences between urban and rural areas in July 2019 were: sunflower oil (750mℓ) at a difference of R3.70, Ceylon/black tea (62.5g) at R3.17 difference, and super maize meal (2.5kg) at a difference of R1.29. This indicates that urban consumers pay R0.34 more, on average, for some of these food items. In other cases, however, rural consumers paid more for certain products (white sugar (2.5kg), margarine spread (500g), and peanut butter (400g)), than their urban counterparts.

Table 4: Comparison between urban and rural food prices (selected food items)

Product	Urban Food Prices July 2019	Rural Food Prices July 2019	Price difference R/unit
Full cream milk – long life 1ℓ	14.62	15.16	-0.54
Loaf of brown bread 700g	12.62	12.58	0.04
Loaf of white bread 700g	13.83	13.58	0.25
Special maize 2.5kg	20.68	19.49	1.19
Super maize 2.5kg	23.86	22.57	1.29
Margarine spread 500g	27.10	28.53	-1.43
Peanut butter 400g	30.05	30.97	-0.92
Rice 2kg	26.46	27.13	-0.67
Sunflower oil 750mℓ	21.85	18.15	3.70
Ceylon/black tea 62.5g	16.30	13.13	3.17
White sugar 2.5kg	39.72	42.09	-2.37
Average difference (R/unit)			0.34

Source: Stats SA, 2019



International food prices

The Food and Agricultural Organization (FAO) of the United Nations (UN) publishes its Food Price Index (FPI) on a monthly basis. The FPI consists of five commodity group price indices, namely, the Meat Price Index, the Dairy Price Index, the Cereals Price Index, the Oils Price Index and the Sugar Price Index. These indices are weighted with the average export shares of each of the groups for 2002 to 2004. In total, 55 commodity quotations, considered by FAO commodity specialists as representing the international prices of the noted food commodities, are included in the overall index. **Figure 3** shows the overall monthly real (deflated) FAO FPI from 2014 to 2019, with July 2019 reaching an index level of 134.37 percentage points.

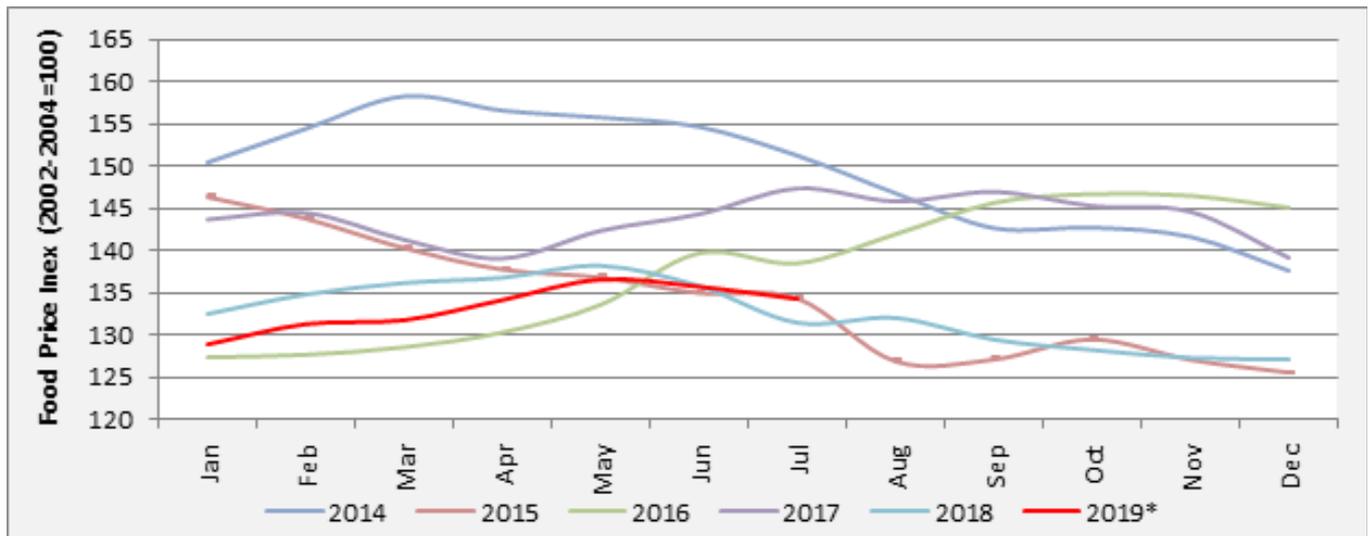


Figure 3: International monthly real FPI

Source: FAO, 2019

*Note: Current year



Figure 4 shows the price indices (real terms) for five food categories, in real terms. The monthly (July 2019 vs. June 2019) growth percentages indicated decreasing trends for Dairy, Cereals and Sugar Price Indexes. The annual (July 2019 vs. July 2018) growth percentages indicated decreasing trends for the Dairy and Oils Price Indexes. The Sugar Price Index reflected the largest annual growth of 9.6%, whilst the Oils Price Index reflected the largest annual decline of 10.9%.

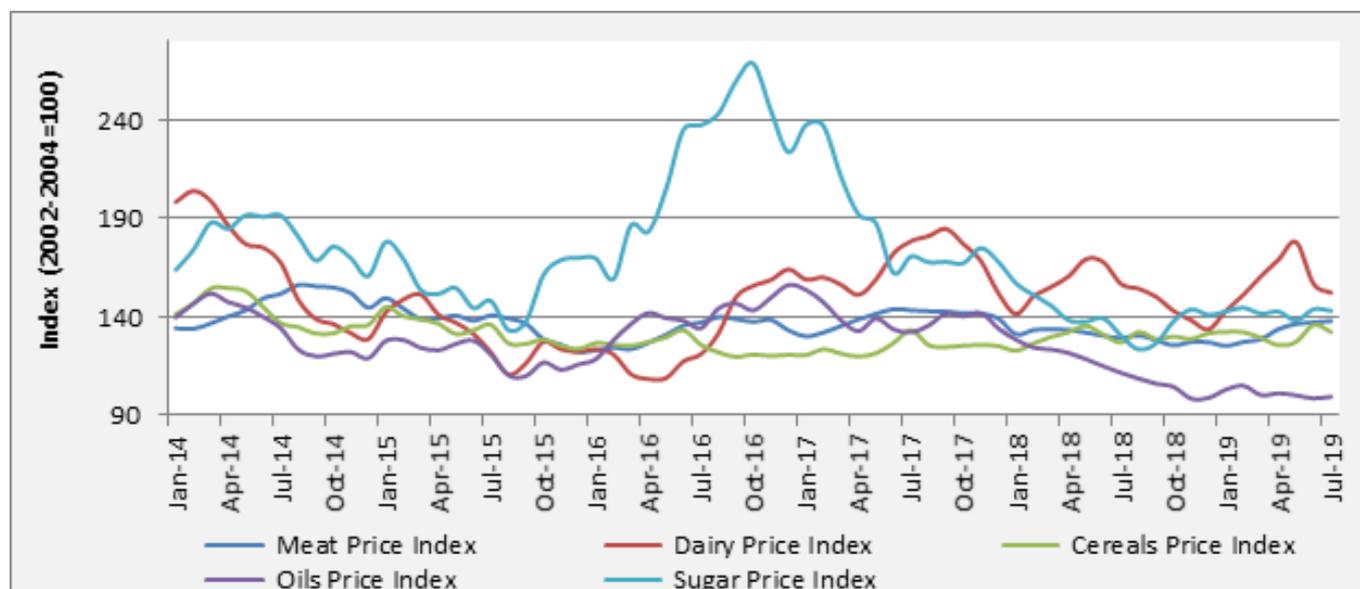


Figure 4: Real price indices for five food categories

Source: FAO, 2019

The **FAO Food Price Index (FFPI)**¹, in nominal terms, averaged 170.9 points in July 2019, down 1.1% (1.8 points) from June 2019 but 2.3% higher than in July 2018. The m-o-m decline was the result of lower prices for some cereals, dairy products and sugar, which more than offset somewhat firmer prices for meat and oils.

The **FAO Cereal Price Index**, in nominal terms, averaged 168.6 points in July 2019, down 2.7% (4.6 points) from June 2019 but 4.1% above its level in the corresponding month last year. The decline in July 2019 was driven by lower wheat and maize prices. In wheat markets, despite downward adjustments to production prospects in several countries, large export supplies and continued expectations of record world production this year weighed on international prices. Similarly, after their rapid surge in June 2019, international maize prices fell in July 2019; ample export availabilities,

particularly in Argentina and Brazil, contributed to the slide. However, FAO's all rice price index marked its fifth successive month of stability, amid generally quiet market activity.

The **FAO Vegetable Oil Price Index**, in nominal terms, averaged 126.5 points in July 2019, up 0.8% (one point) from the previous month but still 11% below last year's corresponding level. Overall, firmer soy and sunflower oil prices more than offset a further drop in palm oil values. The concurrence of seasonal production rises in Southeast Asia and sluggish global import demand continued weighing on palm oil prices. On the other hand, soy-oil prices appreciated almost in tandem with rising soybean values while low crush volumes in the United States also contributed to the increase. Similarly, sunflower oil firmed as a slowdown in crushing in the Black Sea region coincided with robust international demand.

¹ Unlike for other commodity groups, most prices utilized in the calculation of the FAO Meat Price Index are not available when the FAO Food Price Index is computed and published; therefore, the value of the Meat Price Index for the most recent months is derived from a mixture of projected and observed prices. This can, at times, require significant revisions in the final value of the FAO Meat Price Index which could in turn influence the value of the FAO Food Price Index.



The **FAO Dairy Price Index**, in nominal terms, 193.5 points in July 2019, down 2.9% (5.7 points) from June 2019, representing the second consecutive month of decline. At this level, the index value is some 6% above that of January 2019 but almost 3% below the corresponding month last year. In July 2019, quotations for butter declined the most, followed by cheese and Whole Milk Powder (WMP). Weakness from lacklustre spot market trading, as the summer holiday period in the Northern hemisphere enters its peak, contributed to the weaker prices. By contrast, Skim Milk Powder (SMP) prices recovered, supported by firmer buying interest from the Middle East and Asia.

The **FAO Meat Price Index**, in nominal terms, 176.2 points in July 2019, up 0.6% (one point) from its slightly revised value for June 2019 and registering the sixth moderate m-o-m price increase. At this level, the index value stands at nearly 10% above that of January 2019, but almost 17% below its peak in August 2014. In July 2019, price quotations for ovine meat rose further, boosted by strong import demand from Asia amid supplies from Oceania retreating from their seasonal

highs. Asia's robust import demand for bovine meat also contributed to further gains in bovine prices. However, quotations for pig-meat were down slightly after four months of continued increases, reflecting larger export availabilities from Brazil and the United States. Poultry quotations held firm at June 2019 levels, with markets characterized by generally stable but still strong demand.

The **FAO Sugar Price Index**, in nominal terms, 182.2 points in July 2019, down 0.6% (one point) from June 2019, mainly on expectations for higher sugarcane yields in India, the world's largest sugar producer, following above average rainfalls in the main sugar producing regions. The decline in world prices was, however, somewhat contained by a strengthening of the Brazilian currency (Real) against the United States Dollar, a move that tends to restrain exports from Brazil, the world's largest sugar exporter. In addition, new estimates pointing to smaller sugar production in Brazil's Centre-South through June 2019 also provided some support.

Estimated impact of food inflation on consumers

The estimated impact of food inflation on consumers

The purpose of this section is to illustrate the impact of food inflation on consumers. The analysis presented in this section is based on the cost of a NAMC's 28-item food basket¹ (originally compiled by the Food Price Monitoring Committee in 2003, revised in January 2017), based on monthly average food price data for the period July 2019 vs. July 2018.

During July 2019, the nominal cost of the NAMC's 28-item urban food basket amounted to R870.47, decreasing by 0.4% from June 2019 (m-o-m) and increasing by 3% from July 2018 (y-o-y). The cost of this food basket expressed as a share of the average monthly income² of the poorest 30% of the population increased from 56.8% in July 2018 to 58.5% in July 2019. The cost of the food basket expressed as a share of the average monthly income of the wealthiest 20% of the population increased from 3% in July 2018 to 3.1% in July 2019 (Figure 5).

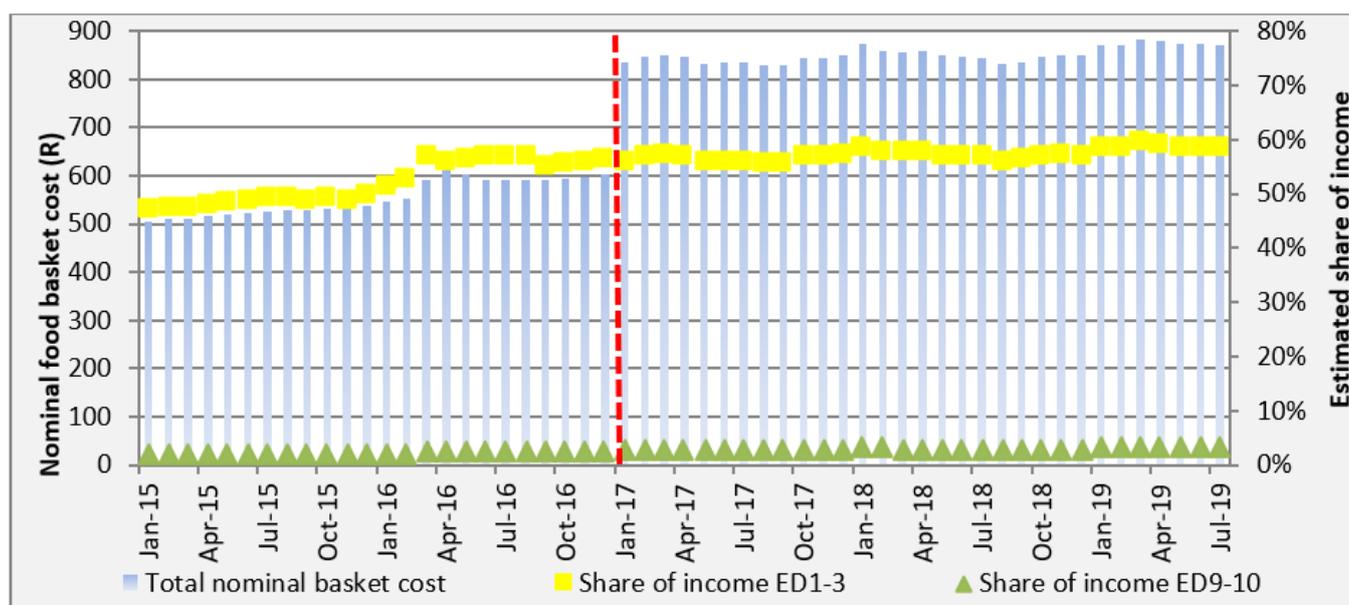


Figure 5: The cost of a typical consumer food basket for the period January 2015 to July 2019, expressed in nominal terms and as share of the average income of the poorest 30% of households (Expenditure Deciles 1-3) and the wealthiest 20% of households (ED 9-10)

Sources: BFAP calculations, Stats SA, 2019

*Note: New basket composition from January 2017

¹ Composition of the NAMC food basket: Apples fresh (per kg), Baked beans tinned (410g), Bananas fresh (per kg), Beans dried (500g), Beef mince fresh (per kg), Beef offal fresh (per kg), Bread loaf brown (700g), Bread loaf white (700g), Cabbage fresh (per kg), Cheese cheddar (per kg), Chicken giblets (per kg), Chicken portions IQF (2kg), Coffee instant (250g), Eggs (1.5 dozen), Fish (excl. tuna) tinned (400g), Maize meal super (5kg), Margarine brick (500g), Milk full cream long life (1l), Onions fresh (per kg), Oranges fresh (per kg), Peanut butter (400g), Polony (per kg), Potatoes fresh (per kg), Rice (2kg), Sugar white (2.5kg), Sunflower oil (750ml), Tea Ceylon/black (250g) and Tomatoes fresh (per kg).

² The cost of the typical food basket was expressed as a share of the estimated average monthly income of Expenditure Deciles 1-3, the poorest 30% of the population, as calculated from the Stats SA Living Conditions Survey (LCS) 2014/15 (household income estimated by total expenditure of households on all items). The wealthiest 20% of the population was expressed as a share of the estimated average monthly income of Expenditure Deciles 9-10

To further explore the impact of inflation on consumers, **Figure 6** presents an illustration of the average nominal cost growth of specific food groups within the NAMC's 28-item food basket, comparing the periods July 2019 vs. July 2018 (y-o-y) and July 2019 vs. June 2019 (m-o-m). Food categories in this 28-item food basket experiencing the highest annual inflation include fresh produce (particularly fruit, but also vegetables), sugary foods, and bread & cereals.

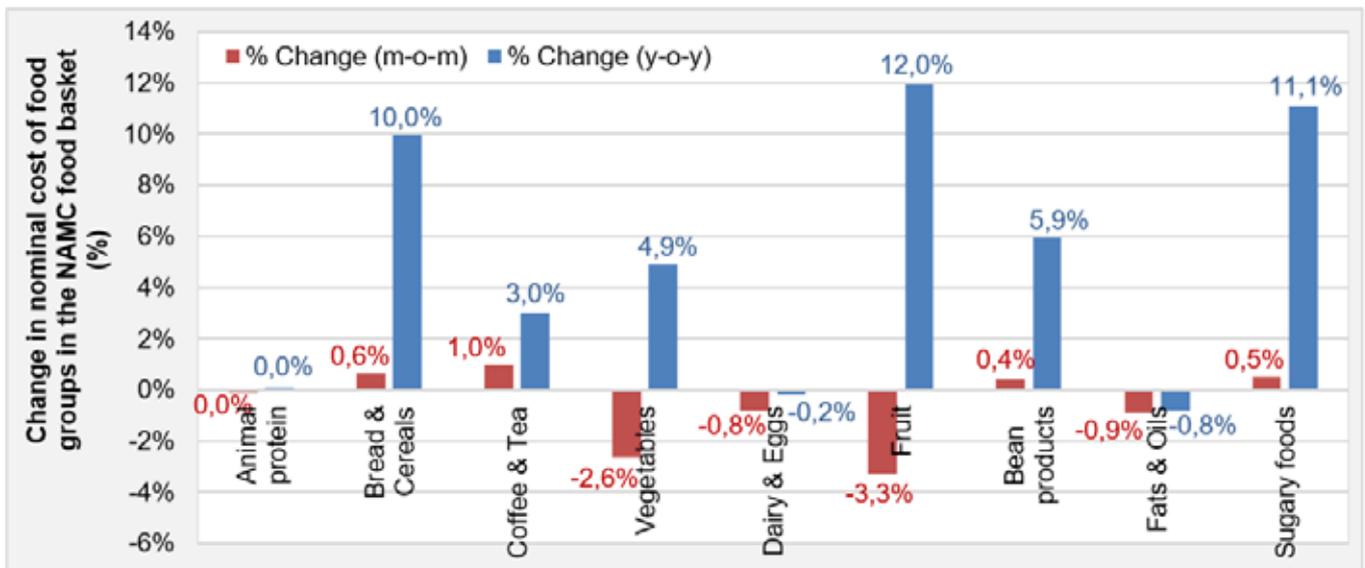


Figure 6: Nominal cost growth of specific food groups within the NAMC's 28-item food basket, comparing July 2019 vs. July 2018 and July 2019 vs. June 2019

Sources: BFAP & NAMC calculations, Stats SA, 2019

The various food groups within the NAMC's 28-item food basket are discussed in more detail in **Table 5** below.

Table 5: Overview of contributions to annual food price increases within the 28-item NAMC food basket, July 2019 vs. July 2018

Food group	Overall inflation rate		Major contributors to inflation in this category	Minor contributors to inflation in this category	Non-contributors to inflation in this category	Comments
	Jul 2019 vs. Jul 2018	Apr 2019 vs. Apr 2018*				
Animal protein	+0.04%	+1.0%	Tinned fish (+6.2%) Polony (+5.5%)	Chicken giblets (+0.8%)	Beef offal (-1.3%) Beef mince (-2.1%) IQF chicken portions (-2.3%)	Inflation on polony and tinned fish.
Bread and cereals	+10%	+4.5%	Maize meal (+16.7%) Brown bread (+11.3%) White bread (+6.8%)	Rice (+1.7%)	None	Significant inflation on maize meal, and bread.
Vegetables	+4.9%	+19.9%	Cabbage (+6.8%) Tomatoes (+5.5%) Potatoes (+4.7%)	Onions (+2.8%)	None	High inflation on cabbage, tomatoes and potatoes.
Fruit	+12%	+6.8%	Bananas (+22.8%) Apples (+13.8%)	None	Oranges (-0.9%)	High inflation on bananas and apples.
Dairy	+4.4%	-0.1%	Full cream milk (+6.7%)	Cheddar cheese (+2%)	None	Inflation on milk and cheese, deflation on eggs.
Eggs	-7.7%	-6.5%	None	None	Eggs (-7.7%)	
Fats and oils	-0.8%	+1.3%	None	Sunflower oil (+1.8%)	Brick margarine (-3.3%)	Low inflation on sunflower oil.
Bean products	+5.9%	+2.1%	Baked beans (+8.6%) Peanut butter (+7.9%)	Dried beans (+1.7%)	None	Inflation mainly on baked beans and peanut butter.
Coffee and tea	+3%	+2.2%	Ceylon/black tea (+7.9%)	None	Instant coffee (-1.8%)	Inflation on tea, slight deflation on the price of coffee.
Sugary foods	+11.1%	+5.8%	White sugar (+11.1%)	None	None	Inflation on sugar.

Sources: BFAP & NAMC calculations, Stats SA, 2019

*Note: Previous Food Price Monitor analysis period prior to July 2019 vs. July 2018

When comparing July 2019 vs. July 2018 retail prices, higher price increases (6% or more) were observed for the following products within the NAMC's 28-item food basket (in order from highest to lowest): bananas, maize meal, apples, brown bread, white sugar, baked beans, Ceylon/black tea, peanut butter, white bread, cabbage, full cream milk, and canned pilchards. The items with high inflation could have negative implications in terms of dietary diversity. When comparing price changes for July 2019 vs. July 2018 with April 2019 vs. April 2018 (i.e. the previous Food Price Monitor analysis period), higher price increases were reported for bread & cereals, fruit, dairy, bean products, coffee/tea and sugar.

The impact of inflation on very poor consumers is based on the typical portion sizes of very poor consumers with regards to the five most widely consumed food items in South Africa represented by maize porridge, brown bread, sugar, tea and full cream milk (National Food Consumption Survey - Steyn & Labadarios, 2000; Oldewage-Theron et al, 2005). **Figure 8** illustrates the estimated portion costs for these foods, calculated from food price data for July 2019 vs. July 2018. The significant cost contribution of maize meal and bread to the typical basic daily food selection of poor consumers, are emphasised by the results in **Figure 8**.

Despite the relatively low actual food weight contribution of bread to this ‘food plate’, the bread component costs more than the maize porridge component (about 52% more in this case for July 2019). When comparing the costs associated with the typical portion sizes of very poor consumers with regards to the five most widely consumed food items in South Africa, based on July 2019 vs. July 2018 prices, the results in **Figure 8** indicate deflation of approximately 11.9% (from R5.41 to R6.05 for the typical portion selection). All items revealed positive inflation, in particular maize meal, brown bread, sugar and tea. Comparing July 2019 vs. June 2019, the costs associated with the typical portion sizes of very poor consumers with regards to the five most widely consumed food items in South Africa, increased by 0.6%.

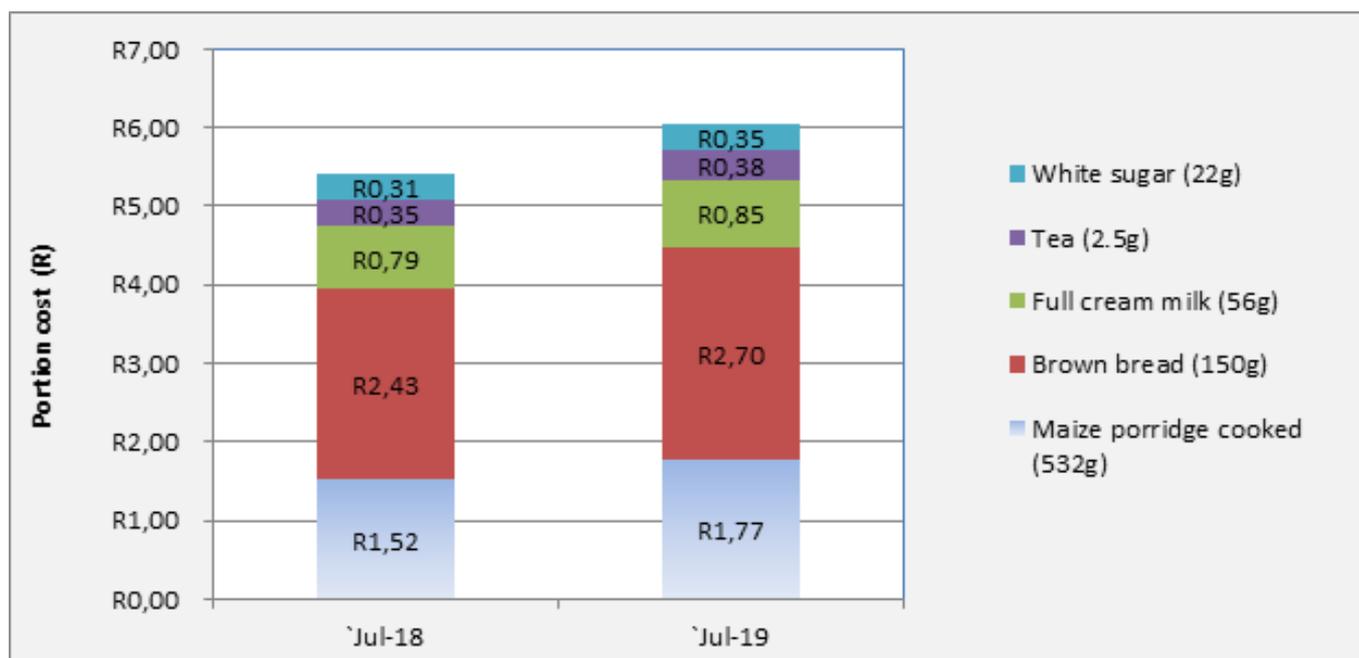


Figure 8: Average nominal cost for the typical portions of the five food items most widely consumed by very poor consumers in South Africa, July 2019 vs. July 2018

Sources: BFAP calculations, Stats SA, 2019

Outlook

Food and non-alcoholic beverage inflation rose by 3.4% during July 2019, with food inflation (without beverages) increasing slightly lower at 3%. This is much lower than the y-o-y inflation rate of 4.4% associated with the BFAP Thrifty Healthy Eating Basket. This timid growth in food inflation can mostly be attributed to the marginal y-o-y inflation in the meat category (+0.17%). This was caused by a combination of factors, including Foot and Mouth Disease (FMD) which resulted in high(-er) value cuts destined for export markets rather being sold locally due to the closure of international markets, and a consumer under severe pressure. The main contributors to inflation in July 2019 were bread and cereals, vegetables and sugar, sweets and confectionary.

On a monthly (m-o-m) basis prices of bread moved sideways. Annual (y-o-y) figures for brown bread however increased substantially, with 11.2%. This retail trend is mimicking wheat price movements of the past few months where wheat prices changed marginally between June 2019 and July 2019, but y-o-y increases for July reached 11%. These substantial increases were already pre-empted in 2019Q2 with the average quarterly wheat showing an increase of 16.2%, y-o-y. Initial indication of the y-o-y average quarterly growth in wheat prices indicate that the upward pressures on bread prices will persist during the rest of 2019, albeit at a slower rate. The average price growth across all recorded packaging sizes for super maize meal was 11.3% y-o-y. Similar to bread, this price increase is driven by a substantial y-o-y increase of the underlying commodity price, namely white maize. Initial comparative white maize prices between 2019Q3 and 2018Q3 suggest that maize meal prices will also experience upward pressure throughout the rest of the year. This could be exasperated by recent and further exchange rate depreciations.

Meat prices only showed marginal growth of 0.7% between July 2018 and July 2019 (y-o-y). As mentioned above, this is partly due to increased domestic supply

but also as a result of dismal local economic conditions that are constraining consumer spending. It is expected that the price growth in this industry will slowly pick up on the back of regained access to some markets lost due to the Foot-and-Mouth disease (FMD). With regards to meat there is surely a significant upside risk to inflationary projections due to the recent and possible future devaluation of the Rand.

With regards to fresh produce inflation, vegetable prices showed an increase of 4.3% whilst fruit prices increased by almost 6% since July 2018. Despite persistent growth in vegetable prices since October 2018 the rate of growth does seem to be slowing down. This could signify a stabilization of the demand support that vegetable prices have received over the first half of 2019. With regards to fruit, the notable increase in prices could possibly be attributed to an increase in quality after the recovery from the prolonged drought in the Western Cape. The improved quality also allows for a larger portion of fruit production to be exported, which, in turn, intensifies the link to global prices and the exchange rate. Based on this it is expected that fruit price growth will increase for the remainder of 2019.

Sugar and confectionary product prices increased by 8.7% since July 2018. This high rate could possibly be attributed to the pre-tariff base effect that was still present in July 2018. Other factors that could play a role is the spill-over price effects from the sugar tax which is only applied to carbonated drinks with high levels of sugar. It is expected that the y-o-y growth will remain above 5% for the rest of 2019.

A key factor that could provide upward pressure to the outlook period as discussed above are the exchange rate movements over the next six months. Looming global and macro-economic issues such as an intensification of the USA-China trade war and a possible downgrade rating for South Africa, could accelerate inflationary pressures on food which is currently relatively benign.

APPENDIX: DATA COLLECTION

Urban food prices reported on in this media release are obtained from Statistics South Africa (Stats SA). The prices obtained are regarded as being representative of changes in food prices in South Africa for the following reasons:

- Stats SA price data on all products are sampled from approximately 1 800 different data collection points across the country on a monthly basis. Food price data is not collected from all the data collection points since some stores that are sampled do not necessarily sell food. In addition, certain food prices are not sampled in all provinces. Food price data collection by Stats SA also involves fieldwork where price collectors visit stores to collect data, after which such data undergoes a rigorous process to ensure its integrity. The basket of food products included was derived from the Living Conditions Survey of 2014/15' compiled by Stats SA to ensure that the basket is representative of consumer spending on food. For more detailed information on the methodological process involved in the collection of prices visit the Stats SA website: <http://www.StatsSA.gov.za/>.
- This media release also reports food prices in rural areas. Rural food prices were collected from 190 outlets/shops by field workers on a monthly basis.

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